

# Joint Legislative Budget Committee - Fiscal Year 2000 and 2001 Budget - Analysis and Recommendations

DEPT: AZ Health Care Cost Containment System JLBC: Jennifer Vermeer/Gretchen Logan OSPB: Shelli Silver/Aimee Petrosky  
 PROG: Acute Care House: Johnson Senate: Wettaw

DESCRIPTION	FY 1998 ACTUAL	FY 1999 ESTIMATE	FY 2000		FY 2001	
			OSPB	JLBC	OSPB	JLBC

## OPERATING BUDGET

Full Time Equivalent Positions	0.0	0.0	0.0	0.0	0.0	0.0
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## SPECIAL LINE ITEMS

Capitation	764,393,400	839,618,100	844,540,700	860,502,400	896,224,400	907,182,400
Fee for Service	252,728,800	229,566,700	214,237,900	215,377,400	224,677,600	226,014,100
Reinsurance	27,637,600	34,012,700	40,333,600	39,477,200	43,360,500	41,949,800
Medicare Premiums	16,052,000	19,569,800	31,391,600	31,052,600	34,156,100	48,724,100
Qualified Medicare Beneficiaries	6,488,100	5,017,600	0	0	0	0
Specified Low Income Medicare Beneficiary	1,078,500	0	0	0	0	0
Qualified Individuals I & II	0	2,668,000	0	0	0	0
Disproportionate Share Payments	134,167,500	125,679,400	125,679,400	124,891,500	125,679,400	124,891,500
Graduate Medical Education	0	18,289,800	18,838,500	18,289,800	19,403,600	18,289,800
Woodwork	0	0	24,397,800	0	26,246,500	0
<b>PROGRAM TOTAL</b>	<b>1,202,545,900</b>	<b>1,274,422,100</b>	<b>1,299,419,500</b>	<b>1,289,590,900</b>	<b>1,369,748,100</b>	<b>1,367,051,700</b>

## BY FUND SOURCE

General Fund	425,484,500	438,541,100	432,691,000	421,314,100	458,505,300	442,661,800
Tobacco Tax Funds	25,266,700	28,775,700	13,123,100	30,328,400	8,201,500	31,947,300
Tobacco Settlement Funds	0	0	12,500,000	0	17,546,400	0
Third Party Collections	1,855,800	1,583,400	1,124,800	1,124,800	882,000	882,000
County Funds	66,689,500	66,689,500	66,689,500	66,689,500	66,689,500	66,689,500
Federal Funds	683,249,600	738,832,400	773,291,100	770,134,100	817,923,400	824,871,100
<b>TOTAL - ALL SOURCES</b>	<b>1,202,546,100</b>	<b>1,274,422,100</b>	<b>1,299,419,500</b>	<b>1,289,590,900</b>	<b>1,369,748,100</b>	<b>1,367,051,700</b>

**Program Description** — The AHCCCS Acute Care program is the medical services component of Arizona's Medicaid Demonstration Project. The program is based on prepaid monthly capitation payments to contracted providers for the full range of authorized medical services including some behavioral health services available to enrolled members. The program follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate and are responsible for managing patient utilization and cost through a system of prior authorization and utilization review, coordinated by a primary care physician or practitioner. As a federal demonstration project, the Acute Care program operates under a series of federal waivers that make the "managed care" concept possible. AHCCCS covers the mandatory federal eligibility groups, as well as certain optional state groups, such as the Medically Needy/Medically Indigent (MN/MI.) In cases involving catastrophic medical expenses, AHCCCS supplements Capitation through Reinsurance in order to preserve health plan financial viability.

Change in Funding Summary	FY 1999 to FY 2000 JLBC		FY 2000 JLBC to FY 2001 JLBC	
	\$ Change	% Change	\$ Change	% Change
General Fund	\$(17,227,000)	(3.9)%	\$21,347,700	5.1%
Tobacco Tax Funds	1,552,700	5.4%	1,618,900	5.3%
Third Party Collections	(458,600)	(40.8)%	(242,800)	(27.5)%
Federal Funds	31,301,700	(4.2)%	54,737,000	7.1%
Total Funds	\$15,168,800	1.2%	\$77,460,800	6.0%

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## Recommended Changes from Prior Year

	<u>FY 2000</u>	<u>FY 2001</u>
FY 1999 Estimated Acute	GF \$(34,214,200)	-0-
Care Variance	TF (71,238,200)	-0-

The JLBC is estimating FY 1999 General Fund expenditures for the Acute Care program to be \$(34,214,200) GF less than the FY 1999 appropriation. This surplus is due primarily to declining enrollment in Capitation. Since FY 1994, enrollment in the Acute program has been declining. The FY 1999 appropriation assumed that enrollment would level off in FY 1999; however, enrollment continued to decrease throughout the first half of FY 1999. As a result, the JLBC estimates that capitation expenditures will be \$(25,546,400) GF and \$(33,702,200) TF lower than the FY 1999 appropriation. Capitation costs are also lower than expected because the new capitation rates AHCCCS implemented on October 1, 1998 are lower than the estimates included in the FY 1999 appropriation. The new rates result in decreased costs of \$(1,365,700) GF and \$(7,824,700) TF in the Capitation Special Line Item.

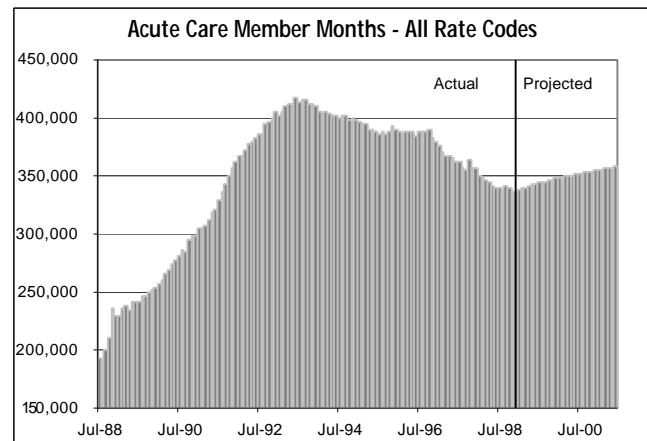
In addition, expenditures for the Fee-for-Service program are expected to be \$(7,588,900) GF and \$(30,542,900) TF lower than the FY 1999 appropriation due to a contract change AHCCCS implemented on October 1, 1997. Prior to October 1, AHCCCS applicants were covered through Fee-for-Service payments until they enrolled with a health plan. Beginning October 1, 1997, most applicants are covered through Capitation payments from the first day of the month of application. AHCCCS made this change to lower state expenditures because capitation is less costly than fee-for-service. The FY 1999 appropriation assumed a decrease in the Fee-for-Service Special Line Item to address this change; however, actual expenditures through the first quarter of FY 1999 indicate costs will be lower than anticipated.

This estimated Acute Care variance is shown so that the following amounts accurately reflect the amounts of cost increases or decreases associated with the revised FY 1999 estimate. Relative to the JLBC estimated Acute Care variance, the Executive projects a slightly lower GF surplus for FY 1999 of \$(30,365,800).

<b>Demographic and</b>	<b>GF</b>	<b>17,192,900</b>	<b>21,627,800</b>
<b>Inflationary Increases</b>	<b>TF</b>	<b>83,727,200</b>	<b>60,530,100</b>

The JLBC recommends an increase of \$17,192,900 GF and \$83,727,200 TF for Capitation, Fee-for-Service, and Reinsurance for FY 2000 above the revised FY 1999 base described in the prior policy issue. For FY 2001, we recommend a further increase of \$21,627,800 GF and

Chart 1



\$60,530,100 TF. The JLBC recommendation reflects demographic and inflationary increases for those AHCCCS members enrolled in capitated health plans, and other populations whose services are paid on a fee-for-service basis. Such populations include Native Americans served by Indian Health Services facilities or referred off-reservation, and persons eligible for only emergency services coverage. The JLBC recommendation projects that overall AHCCCS enrollment will grow by 2.2% in FY 2000 and 2.1% in FY 2001 as shown in Chart 1.

The table below shows the total member years and percent change from the revised FY 1999 base included in the JLBC recommendation for each AHCCCS rate code for FY 2000 and FY 2001.

<b>Federally-Eligible Rate Codes</b>	<b>FY 2000</b>		<b>FY 2001</b>	
	<b>%</b>	<b>Member Years</b>	<b>%</b>	<b>Member Years</b>
TANF < 1	4.6	33,910	3.3	35,033
TANF 1-13	4.3	172,909	2.5	177,299
TANF 14-44 – Female	(1.3)	60,198	0.7	60,642
TANF 14-44 – Male	(3.2)	12,739	0.3	12,773
TANF 45+	(8.0)	2,579	0.0	2,579
SSI w/ Medicare	0.3	20,310	(0.2)	20,278
SSI w/o Medicare	4.7	48,050	3.4	49,689
Family Planning	6.9	24,069	0.0	24,069
Deliveries	6.9	1,529	3.2	1,578
<b>State-Only Rate Codes</b>				
MN/MI <sup>1/</sup>	(4.6)	19,159	0.0	19,161
EAC/ELIC < 1 <sup>1/</sup>	(72.5)	12	0.0	12
EAC/ELIC 1-13 <sup>1/</sup>	(75.3)	152	0.0	152
<b>Total</b>	<b>2.2</b>	<b>370,019</b>	<b>2.1</b>	<b>377,617</b>

<sup>1/</sup> The estimates for these categories include the decreases in Member Years associated with the transfers to the new Children's Health Insurance Program (CHIP). See the CHIP discussion below for further detail.

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Based on these projections, the JLBC recommendation includes increases in Capitation and Fee-for-Service of \$9,684,800 GF and \$53,067,200 TF in FY 2000 for enrollment growth. For FY 2001, the recommended amount includes a further increase of \$8,428,100 GF and \$30,033,000 TF.

The JLBC recommendation also includes 3.5% cost growth in FY 2000 and FY 2001 for Fee-for-Service. Capitation rates are determined through a competitive bid process with AHCCCS typically awarding 2- or 3-year Acute Care contracts and adjusting rates on an annual basis. The JLBC recommendation allows for inflation of 3.5% in capitation rates for FY 2000 and FY 2001. These inflationary adjustments result in an increase of \$10,551,900 GF and \$25,195,500 TF in FY 2000 and a further increase of \$12,190,200 GF and \$28,024,500 TF in FY 2001. The JLBC recommends that the cost for inflation be shared 50% by the General Fund and 50% by the Medically Needy Account of the Tobacco Tax and Health Care Fund in FY 2000. Since inflation represents a new cost, it is an appropriate expenditure from Tobacco Tax monies. This allows the increased cost to the General Fund to be reduced from \$10,551,900 to \$5,275,900, a savings of \$(5,276,000). For FY 2001, the JLBC recommends continuing the FY 2000 amount from the Medically Needy Account.

Finally, the JLBC estimates that Reinsurance costs will increase by \$2,232,200 GF and \$5,464,500 TF in FY 2000. For FY 2001 JLBC estimates Reinsurance will further increase by \$1,009,500 GF and \$2,472,600 TF.

The Executive recommends an increase of \$15,452,600 GF in FY 2000 from their revised FY 1999 estimate for capitation, Fee-for-Service, and Reinsurance caseload growth and medical inflation. The Executive's recommendation equates to an increase of \$19,301,000 from the JLBC revised FY 1999 estimate. For FY 2001, the Executive recommends a further increase of \$23,360,500.

Indian Health Services (IHS)	GF	-0-	-0-
Facilities	TF	3,843,500	187,800

The JLBC recommends an increase of \$3,843,500 TF for FY 2000 for Fee-for-Service costs at IHS facilities. For FY 2001, we recommend a further increase of \$187,800 TF. AHCCCS receives 100% Federal Funds to pay for services to AHCCCS eligible individuals who receive services at an IHS facility. Historically, a portion of these services have been paid by the health plans in which the recipients were enrolled. However, the majority of the service costs were submitted on claims to AHCCCS for payment. AHCCCS denied these claims and IHS absorbed the costs. AHCCCS has revised its contract with IHS such that the services that were formerly denied, will now be paid by AHCCCS. Since this program is 100% federally

funded, the contract change will not result in increased state costs.

Children's Health Insurance Program	GF	(450,900)	(205,900)
	TF	9,220,500	(205,900)

Laws 1998, Chapter 4, 4<sup>th</sup> Special Session established the Children's Health Insurance Program (CHIP) under Title XXI of the Federal Social Security Act to provide health insurance coverage to uninsured children who are ineligible for Medicaid and whose families meet the eligibility requirements. Under Chapter 4, children up to age 18 with family income less than 150% of the Federal Poverty Level (FPL) in FY 2000 and less than 200% FPL in FY 2001 are eligible for the CHIP program. (*See the Administration section for further detail about Title XXI.*)

It is anticipated that outreach for the CHIP program will create a "woodwork effect" that will lead to higher AHCCCS costs. As CHIP outreach efforts encourage parents to apply for health coverage for their children, some of the applicants will be found eligible for the current AHCCCS program (Title XIX). Federal law requires that these children be enrolled in the current AHCCCS program. The JLBC estimates the woodwork effect will result in increased costs of \$5,000,000 GF and \$14,671,400 TF in FY 2000. This increase is included in the Capitation Special Line Item.

However, most of the children currently enrolled in AHCCCS through the Medically Needy/Medically Indigent (MNMI), Eligible Assistance Children (EAC) and Eligible Low-Income Children (ELIC) programs will now be eligible for CHIP. These programs are funded entirely with state funds and are not included under federal Title XIX eligibility. As a result, Title XXI does not require them to be served by AHCCCS. Thus, if they are eligible for the new CHIP program they will transfer out of AHCCCS and into CHIP. The JLBC estimates that 4% of the MNMI population (most MNMIs are adults) and 90% of the EAC and ELIC populations will convert to CHIP resulting in savings of \$(5,450,900) GF and \$(5,450,900) TF in FY 2000. For FY 2001, the JLBC recommendation assumes further savings of \$(205,900) GF and \$(205,900) TF.

These savings offset the increase in cost due to the woodwork effect for a net savings of \$(450,900) GF in FY 2000 and \$(205,900) GF in FY 2001. The Executive recommends an increase of \$8,341,600 GF in a new "Woodwork" Special Line Item. in FY 2000 for the woodwork effect. The Executive's recommendation includes savings resulting from transfers to CHIP, but does not separately identify these savings. For FY 2001, the Executive recommends a further increase of \$603,200 GF.

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Fraud Detection Savings	GF	-0-	(1,000,000)
	TF	-0-	(2,934,300)

The JLBC recommends a decrease of \$(1,000,000) GF and \$(2,934,300) TF in capitation expenditures in FY 2001 due to savings from increased fraud detection. The JLBC recommendation includes an increase of \$128,100 GF in the Administration program to add additional staff to the Fraud Detection Unit. This unit reviews applications prior to approval to identify fraudulent information. Additions to this unit in FY 1999 resulted in savings of \$(250,000) in the first quarter. Given these past results, the JLBC estimates that the unit will achieve savings of \$(1,000,000) GF in FY 2001. The Executive does not address this issue.

Medicare Consolidation	GF	-0-	-0-
	TF	-0-	-0-

The JLBC recommends consolidating the Qualified Medicare Beneficiaries (QMB), Medicare Premiums, and Qualified Individuals Special Line Items into the Medicare Premiums Special Line Item. All 3 Special Line Items contain funding to pay for Medicare premiums for various AHCCCS populations and were added over time as new populations were added. The funding no longer needs to be highlighted in separate Special Line Items. The Executive concurs.

Medicare Premiums	GF	574,500	683,000
	TF	2,965,700	17,671,500

The JLBC recommends an increase of \$574,500 GF and \$2,965,700 TF in FY 2000 for the new, consolidated Medicare Premiums Special Line Item. For FY 2001, we recommend a further increase of \$683,000 GF and \$17,671,500 TF.

The FY 2000 increase includes \$417,800 GF and \$1,430,000 TF for Medicare Premiums. This program provides funding for the purchase of Medicare Part B (supplemental medical insurance) on behalf of those eligible for Medicaid and Medicare Part A (hospital insurance) coverage. This "buy-in" reduces state costs since the federal government, through Medicare, absorbs some costs that otherwise would have been paid by AHCCCS. The recommended increase reflects both population growth and the increased cost of Part B premiums. For FY 2001, we recommend a further increase of \$497,700 GF and \$1,530,700 TF for this program.

The recommended FY 2000 increase also includes \$156,700 GF and \$510,700 TF for the QMB program. Federal law requires states to pay Medicare Part A and Part B premiums, deductibles and co-payments for eligible low income Medicare recipients. The increase in cost reflects both population growth and the increased cost of the premiums and deductibles. For FY 2001, we recommend a further increase of \$185,300 GF and \$561,800 TF for QMBs.

The recommended amount also includes an increase of \$1,025,000 TF in FY 2000 and a further increase of \$15,579,000 TF in FY 2001 for Qualified Individuals. Federal law requires that states expand the Medicare Part B buy-in program for certain qualified individuals with incomes between 120% and 175% of the FPL. Although the program is mandatory, it is 100% federally funded up to the amount of the federal allotment provided. States are responsible for 100% of costs above the federal allotment, but may cap enrollment. AHCCCS plans to cap enrollment so as to use only Federal Funds for this program.

The Executive recommends an increase of \$861,400 GF in FY 2000 and a further increase of \$683,000 in FY 2001.

Disproportionate Share	GF	(787,900)	-0-
Payments	TF	(787,900)	-0-

The JLBC recommends a decrease of \$(787,900) GF and \$(787,900) TF for FY 2000 in the Disproportionate Share Payments (DSH) Special Line Item. This decrease reflects the change in the state match required for the Federal Matching Assistance Percentage (FMAP). The FMAP is scheduled to increase from 65.50% to 65.92% effective October 1, 1999. See the chart at the end of this section for further detail on the distribution of DSH monies. The Executive concurs.

Third Party Collections	GF	458,600	242,800
	TF	-0-	-0-

For a number of years, funding for the AHCCCS budget has included \$5,000,000 in Third Party Collections as an offset to the General Fund contribution. Actual Third Party Collections, however, have been lower than \$5,000,000. As a result, the FY 1999 appropriation included an increase of \$831,900 GF to make up for the lower collections. Collections are expected to continue decreasing to \$1,124,800 in FY 2000 and to \$882,000 in FY 2001 due to the contract change that shifted a large number of Fee-for-Service claims to capitation (discussed in the FY 1999 Estimated Acute Care Variance section above). AHCCCS now has more difficulty collecting from Third Parties since a capitated payment is made in advance to the AHCCCS Health Plan. To offset the decrease in Third Party Collections, the JLBC recommends an increase of \$458,600 GF in FY 2000 and a further increase of \$242,800 in FY 2001. The Executive concurs.

County Acute Care	GF	-0-	-0-
Contribution	TF	-0-	-0-

The JLBC recommendation maintains the county contribution to the Acute Care program at the current year level of \$66,689,500. The county contribution is set annually in a session law provision in the Omnibus Reconciliation Bill. The Executive concurs.

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Continue Phase-Down of Quick Pay Discount	GF	-0-	-0-	
	TF	(5,535,400)	1,742,900	

The JLBC recommends continuing the phase-down of the "Quick Pay Discount" for FY 2000 (6% state-only; 1% federal) and for FY 2001 (5% state-only; 1% federal), resulting in a cumulative cost of \$12,071,300 TF in FY 2000 and \$13,814,200 TF in FY 2001. The FY 2000 estimate is \$(5,535,400) less than the amount appropriated for the quick pay phase-down in FY 1999. This decrease is due to reinsurance no longer being included in the quick pay calculation. Reinsurance has a 9-month time lag and does not qualify for the discount. The FY 2001 estimate is \$1,742,900 greater than the FY 2000 recommended amount.

The JLBC also recommends that the state share of this cost, \$6,794,600 in FY 2000 and \$8,206,700 in FY 2001, be funded from the Tobacco Tax and Health Care Medically Needy Account. The quick pay discount is a reduction in the reimbursement for bills paid "quickly" by AHCCCS (within 30 days of receipt). The quick pay discount for state-only reimbursement is being lowered by 1% each year until reaching 1% in FY 2005. On March 1, 2000, the state-only rate will be lowered from 7% to 6%, and on March 1, 2001 from 6% to 5%. The rate was previously as high as 10%. The reimbursement for federal categorical populations was lowered from 3% on October 1, 1997 to 1%. No further reductions are planned. The JLBC recommends that the session law provision allowing use of Tobacco Tax monies for these purposes be continued.

The Executive recommends an increase of \$1,641,000, for a total state match of \$7,500,000 for this issue, and recommends that \$5,000,000 of this amount continue to be funded from the Tobacco Tax Medically Needy account in FY 2000. The Executive recommends that the remaining \$2,500,000 be funded from monies received from the tobacco settlement. For FY 2001, the Executive recommends that the entire state match amount, \$7,500,000, be funded from tobacco settlement monies. (See the "Tobacco Settlement" section in *Other Issues for Legislative Consideration* for more information on the tobacco settlement.)

Federal Medical Assistance Percentage (FMAP)	GF	-0-	-0-	
	TF	-0-	-0-	

The JLBC recommends freezing the Tobacco Tax allocation used to pay for decreases in the federal matching rate known as the FMAP. This rate is based on a relationship between a 3-year "moving average" for Arizona per capita income and national average per capita income. Since FY 1996 increased state costs that have resulted from decreases in the FMAP have been funded from the Tobacco Tax, resulting in a total allocation of \$4,452,200 in FY 1999. For FY 2000, the FMAP is expected to increase from 65.50% to 65.92%. This change

will not require increased state matching funds. As a result, the JLBC does not recommend an increase in the Tobacco Tax monies allocated for this purpose. The JLBC recommends that the session law provision allowing use of Tobacco Tax monies for these purposes be continued. The Executive concurs.

Maternity Length of Stay	GF	-0-	-0-	
	TF	(4,987,700)	251,200	

The JLBC recommends a decrease of \$(4,987,700) TF in FY 2000 and an increase of \$251,200 in FY 2001 to adjust expenditures to reflect the actual lengths of stay for mothers and infants following birth. In accordance with a recent federal law, health plans may not restrict hospital stays to less than 48 hours following normal delivery or 96 hours following caesarian section. Under the law, the length of stay may be shortened if the attending physician, in consultation with the mother, makes the decision to do so.

The FY 1999 appropriation assumed that all mothers would stay the 48 hours allowed under the new Federal mandate. However, based data from FY 1996, AHCCCS now estimates that only 59% of women will stay the maximum number of days, resulting in a decrease of \$(4,987,700) TF in FY 2000. For FY 2001, the recommended amount includes the same number of days as FY 2000 and includes an increase of 3.5% for medical inflation. This results in an increase of \$251,200 in FY 2001.

Thus, it is estimated that maternity length of stay will cost \$7,177,400 TF in FY 2000 and \$7,428,600 in FY 2001. Since the additional cost results from a change in covered services, the JLBC recommends the FY 2000 state share of \$2,485,800 and the FY 2001 state share of \$2,572,800 continue to be funded from the Medically Needy Account of the Tobacco Tax and Health Care Fund. This is a decrease of \$(1,727,400) from the Tobacco Tax allocation set in FY 1999 and an increase of \$87,000 from FY 2000 to FY 2001. The JLBC recommends that the session law provision allowing use of the Tobacco Tax monies for these purposes be continued. The Executive concurs.

HIV/AIDS Treatment	GF	-0-	-0-	
	TF	(2,038,900)	217,500	

The JLBC recommends continued funding to provide a specific drug therapy to Title XIX HIV/AIDS recipients. The coverage of these "protease inhibitors" is required by the federal Health Care Financing Administration as a successful means of delaying the progression to AIDS and prolonging life. It is estimated that the cost of this drug therapy will be \$2,236,200 TF in FY 2000 and \$2,453,700 TF in FY 2001. Since the additional cost results from a change in covered services, the JLBC recommends the state share of this cost, \$1,229,900 in FY 2000 and \$1,349,600 in FY 2001, be funded from the Medically Needy Account of the Tobacco Tax and Health Care Fund.

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This is a decrease of \$(1,244,000) from the Tobacco Tax allocation set in FY 1999 and an increase of \$119,600 from FY 2000 to FY 2001. AHCCCS estimates the cost to decrease in FY 2000 because FY 1998 data shows lower costs than expected. Costs are expected to increase from FY 2000 to FY 2001. The JLBC recommends that the session law provision allowing the use of Tobacco Tax monies for these purposes be continued.

The Executive concurs with the use of Tobacco Tax monies for the state match for this program, but recommends a decrease of \$(1,400,000) in FY 2000 from the Tobacco Tax allocation. For FY 2001, the Executive recommends an increase of \$96,000 from the FY 2000 level.

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**JLBC Recommended Format** — Special Line Items for the Program

### JLBC Recommended Footnotes

#### *Continued Footnotes*

The FY 1999 disproportionate share payment of \$\_\_\_\_\_ is based on a federal FY 1999 authorized expenditure level of \$\_\_\_\_\_. If the final federal expenditure authorization is an amount different from the estimate, the Governor shall direct the Arizona Health Care Cost Containment System subject to the availability of monies and subject to the review of the Joint Legislative Budget Committee, to proportionately adjust authorization amounts among the identified recipients of disproportionate share hospital payments. Prior to the final payment, the Governor shall provide notification to the President of the Senate, the Speaker of the House of Representatives, the Chairmen of the Appropriations Committees and the Director of the Joint Legislative Budget Committee of the adjusted federal authorized expenditure level and the proposed distribution plan for these monies

Of the FY 2000 and FY 2001 appropriations for Disproportionate Share Payments made pursuant to A.R.S. § 36-2903.01R, the sum of \$\_\_\_\_\_ is for qualifying county operated hospitals, \$\_\_\_\_\_ is for deposit in the Arizona State Hospital Fund and \$\_\_\_\_\_ is for other qualifying disproportionate share hospitals.

The remaining \$\_\_\_\_\_ is for in-lieu payments to counties having a population of 500,000 persons or less according to the most recent United States decennial census, in an amount which is the difference between the disproportionate share payments made pursuant to A.R.S. § 36-2903.01R, and \$\_\_\_\_\_, if the disproportionate share payments are less than \$\_\_\_\_\_. For each county that would receive less than \$\_\_\_\_\_ from these in-lieu

payments, the system administration shall make an additional in-lieu payment that will provide the county with a total payment of \$\_\_\_\_\_. *(These numbers will be added later when the Disproportionate Share numbers are final.)*

Of the \$1,290,117,900 FY 2000 expenditure authority for Acute Care, \$421,841,100 is appropriated from the state General Fund. Of the \$1,370,531,500 FY 2001 expenditure authority for Acute Care, \$444,207,300 is appropriated from the state General Fund.

Before making capitation changes to current fee-for-service programs that may have a budgetary impact in the FY 2000 or FY 2001, the Arizona Health Care Cost Containment System shall report its plan to the Joint Legislative Budget Committee for review.

These amounts reflect direct appropriations. All other expenditures are part of total expenditure authority.

### *Deletion of Prior Year Footnotes*

The JLBC recommends deleting one of the Disproportionate Share footnotes that described the FY 1998 appropriation. It is no longer needed.

### JLBC Recommended Statutory Changes

The JLBC recommends authorizing AHCCCS in FY 2000 and FY 2001 to use the Medically Needy Account of the Tobacco Tax and Health Care Fund to continue the quick pay phase-down, pay for the elimination of the \$10,000,000 reduction in state-only hospital bills, replace reduced Federal Funds, fund extended maternity length of stay coverage, fund the newly-required HIV/AIDS treatment, and pay for 50% of the cost of FY 2000 inflation.

The JLBC recommends setting the FY 2000 and FY 2001 county Acute Care contributions at \$66,689,500, the same level as FY 1999.

The JLBC recommends continuing the annual Omnibus Reconciliation Bill provision of adjusting the upcoming fiscal year's county repayment requirement under the Disproportionate Share Hospital (DSH) program in line with projected federal funding. The JLBC also recommends continuing the provision of extending the county expenditure limit adjustments associated with DSH payments an additional year.

### FY 2000 Excess Balance Transfers to General Fund

AHCCCS Fund (HCA2120)	1,000,000	1,000,000
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The JLBC recommends a one-time transfer of \$1,000,000 from the AHCCCS Fund to the General Fund in FY 2000

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and an additional one-time transfer of \$1,000,000 in FY 2001. The monies in the fund are Federal Title XIX match funds, county contributions for AHCCCS, transfers from the Tobacco Tax Medically Needy Account, and other miscellaneous revenue. The fund is used for AHCCCS program costs as designated by the funding source.

The FY 1998 fund balance was \$7,209,300. The department projects the balance to grow to \$11,515,000 by the end of FY 2001.

### Other Issues for Legislative Consideration

#### Executive Recommendation

The Executive recommends an increase of \$213,300 GF in FY 2000 for Federally Qualified Community Health Centers (FQHCs). Federal law now requires FQHCs to be paid at a rate of 95% of their costs. The FQHC's current contracts with health plans do not contain this guarantee. In FY 1998, AHCCCS and the FQHCs negotiated an agreement that AHCCCS would pay FQHC's a supplemental capitation rate. The Executive's recommendation covers this rate in FY 2000. For FY 2001, the Executive recommends a decrease of \$(11,700) from the FY 2000 level.

The Executive also recommends an increase of \$190,300 GF in FY 2000 for adjustments to the Graduate Medical Education payments to hospitals. The Executive recommends a further increase of \$238,700 GF in FY 2001. The JLBC does not recommend funding for this issue.

#### Tobacco Settlement

In November 1998, Arizona signed a settlement agreement in its lawsuit with tobacco companies. The state joined 30 other states in suing tobacco companies for reimbursement of the cost of medical care provided to indigent tobacco users. Arizona will receive approximately \$2,800,000,000 over the first 25 years of the agreement. This includes one-time, or "up front" payments of \$177,000,000 over 5 years (beginning in FY 1999). The agreement also includes annual payments in perpetuity. The amount of the annual payments grows from \$59,000,000 in FY 2000 to \$118,000,000 by FY 2018.

The Executive has made a recommendation for the entire amount, summarized in table 1. First, the Executive recommends using the \$177,000,000 in up front monies for 3 capital construction projects and to establish an "Arizona Health Trust Fund." This amount includes \$76,000,000 to build a new Arizona State Hospital for the forensic and non-forensic populations and the Sexually Violent Persons, \$30,000,000 for a new State Health Laboratory, and \$12,000,000 in capital construction grants

for rural clinics and community health centers. The Executive's recommendation for the

**Table 1**

<b>Tobacco Settlement – Executive Proposal</b>	
<b>"Up Front" Amount:</b>	<b><u>Over 5 Years</u></b>
• Arizona State Hospital Capital Construction (new forensic/non-forensic hospital and Sexually Violent Persons)	\$ 76,000,000
• State Health Laboratory Capital Construction	30,000,000
• Rural Community Health Centers/Clinics Capital Construction	12,000,000
• Deposit to "Arizona Health Trust Fund" – interest earnings used for disease research and smoking cessation education	<u>59,000,000</u>
<b>Total Up Front Expenditures</b>	<b><u>\$177,000,000</u></b>
<b>Annual Payments:</b>	<b><u>FY 2000</u></b>
• Deposit 33% in Arizona Health Trust Fund (see discussion above)	\$20,000,000
• Transfer items currently funded from Tobacco Tax to Tobacco Settlement	21,000,000
• Health care block grants to counties	15,000,000
• Department of Health Services (DSH) programs (Health Start, psychotropic medications, HIV/AIDS medications, etc.)	<u>4,000,000</u>
<b>Total Annual Expenditures</b>	<b><u>\$59,000,000<sup>1/</sup></u></b>
1/ The annual payments increase to \$118,000,000 by FY 2018. Thus, the estimated amounts for each item increase to \$39,000,000 for Trust Fund, \$35,000,000 for Tobacco Tax items, \$29,000,000 for county block grants, and \$14,000,000 for DHS programs.	

up front monies also includes using \$59,000,000 to establish an Arizona Health Trust Fund. The annual interest earnings from the trust fund would be used for research and treatment of health conditions such as Alzheimers, diseases of the liver, heart and lungs, cancer, and research and education for smoking cessation.

Regarding the annual payments (\$59,000,000 in FY 2000, increasing to \$118,000,000 in FY 2018), the Executive recommends depositing one-third of the monies in the trust fund discussed above. This results in a transfer of \$20,000,000 in FY 2000, for a total FY 2000 trust fund balance of \$79,000,000. The Executive also recommends expending \$21,000,000 for items currently funded from the Medically Needy Account of the Tobacco Tax and Health Care Fund. In FY 2000, this includes transferring the \$10,000,000 for the elimination of the state-only hospital bills and \$2,500,000 of the Quick Pay Discount allocation from the Tobacco Tax to tobacco settlement funding. The Executive also reinstates some tobacco allocations that were discontinued in FY 1999, such as transfers to the Medical Services Stabilization Fund. In

## Joint Legislative Budget Committee - Fiscal Year 2000 and 2001 Budget - Analysis and Recommendations

FY 2001, the Executive transfers an additional \$5,000,000 of the Quick Pay Discount from the Tobacco Tax to the Tobacco Settlement.

The Executive recommendation for the annual payments also includes \$15,000,000 for block grants to counties, and \$4,000,000 for the Department of Health Services (DHS) for programs such as Health Start, HIV/AIDS medications, immunization, and psychotropic medications. At FY 2018 funding levels (\$118,000,000 per year) the Executive recommendation equates to \$39,000,000 in annual deposits to the trust fund, \$35,000,000 for Tobacco Tax items, \$29,000,000 for county health block grants and \$14,000,000 for DHS programs.

The JLBC has not made a recommendation for expending the tobacco settlement monies. In addition, since the Executive's recommendation addresses the major capital construction issues facing the ASH campus, the JLBC recommends that decisions regarding capital construction projects for ASH, such as a new hospital and the placement of the Sexually Violent Persons program, be made in conjunction with the overall usage of the tobacco settlement monies.

### Summary of the Tobacco Tax and Health Care Fund

As shown in the Tobacco Tax table, the JLBC projects that Tobacco Tax revenues will equal \$109,803,500 in FY 2000 and \$107,278,000 in FY 2001. When interest revenues in the various accounts is included, total revenues for FY 2000 are \$122,420,900 and \$119,948,400 in FY 2001. This reflects annual decreases of (2.3)%. Revenues

are expected to decrease by a greater amount in FY 2000 and FY 2001 due to decreased tobacco sales resulting from higher tobacco prices following the settlement of the lawsuit with tobacco companies described above.

Tobacco Tax expenditure earmarks will equal \$144,278,000 in FY 2000 and \$149,587,700 in FY 2001. The projected expenditures include \$30,328,400 in FY 2000 and \$31,947,300 in FY 2001. The JLBC recommendation includes the following Tobacco Tax funding:

	<b><u>FY 2000</u></b>	<b><u>FY 2001</u></b>
Phase-down of the Quick Pay Discount	\$6,794,600	\$8,206,700
Elimination of \$10,000,000 Reduction on State-Only Hospital Bills	10,000,000	10,000,000
Change in Federal Medical Assistance Percentage	4,542,200	4,542,200
Expanded Maternity Length of Stay	2,485,800	2,572,800
HIV/AIDS Treatment	1,229,900	1,349,600
50% of FY 2000 Medical Inflation	<u>5,276,000</u>	<u>5,276,000</u>
<b>TOTAL</b>	<b><u>\$30,328,400</u></b>	<b><u>\$31,947,300</u></b>

### FY 1999 Supplemental Appropriation

The JLBC recommends a FY 1999 supplemental appropriation of \$599,500 GF and \$1,670,200 TF for the Disproportionate Share Hospital (DSH) program. This reflects the allocation of \$1,670,200 in unspent FY 1999 DSH funds. The Executive concurs.

<b>Performance Measures</b>	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Estimate</b>	<b>FY 2000 Estimate</b>
Immunization rate for 2-year-old children enrolled in AHCCCS	75%	80%	85%	90%
Children receiving preventive well child care (EPSDT)	60%	65%	70%	75%
Children receiving at least 1 annual dental visit	41%	50%	55%	60%
Member satisfaction with health plans	85%	85%	85%	85%



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## Tobacco Tax and Health Care Fund

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
<u>Funds Available</u>				
Tobacco Tax Collections	\$114,448,500	\$112,388,400 <sup>1/</sup>	\$109,803,500 <sup>2/</sup>	\$107,278,000 <sup>2/</sup>
<u>Allocation</u>				
DOR Administration	\$344,000	\$352,600	\$352,600	352,600
Transfer to AHCCCS Medically Needy Account	81,503,300	\$79,825,300	\$77,978,900	76,175,000
Transfer to DHS Health Education Account	26,779,600	\$26,228,300	\$25,621,600	25,028,900
Transfer to DHS Health Research Account	5,821,600	\$5,701,800	\$5,569,900	5,441,100
Transfer to DOC Corrections Fund	0	\$280,400	\$280,400	280,400
<b>Total Allocation</b>	\$114,448,500	\$112,388,400	\$109,803,400	107,278,000
<b>AHCCCS Medically Needy Account</b>				
<u>Funds Available</u>				
Balance Forward	87,187,100	75,759,800	74,126,800	\$78,442,900
Transfer In - Tobacco Tax and Health Care Fund	81,503,300	79,825,300	77,978,900	\$76,175,000
Interest Revenue	4,648,000	3,889,600	3,802,600	\$3,865,400
Revertments from the DHS Medically Needy Account	2,405,500	12,883,900	0	\$0
<b>Total Funds Available</b>	175,743,900	172,358,600	155,908,300	158,483,300
<u>Allocation</u>				
Offset Loss in Federal Funding	4,145,000	4,542,200	4,542,200	4,542,200
Phase-Down of Quick Pay Discount	7,978,800	7,546,400	6,794,600	8,206,700
\$10 M Hospital Reimbursement	10,000,000	10,000,000	10,000,000	10,000,000
Maternity Length of Stay	1,919,000	4,213,300	2,485,800	2,572,800
HIV/AIDS Treatment	1,223,900	2,473,900	1,229,900	1,349,600
FY 2000 Medical Inflation	0	0	5,276,000	5,276,000
Transplants	1,619,200	3,500,000	3,590,000	3,590,000
Transfer to AHCCCS Med Services Stabilization Fund	15,000,000	1,250,000	0	0
Transfer to AHCCCS Premium Sharing Demo Project	20,325,000	20,400,000	0	0
Transfer to Children's Health Insurance Fund	0	9,251,100	15,103,200	19,844,800
Transfer to DHS Medically Needy Account	36,410,400	34,554,900	27,943,700	27,915,900
Transfer to DHS Health Crisis Fund	862,800	0	0	0
Transfer to DES Aging and Adult Administration	500,000	500,000	500,000	500,000
<b>Total Allocation</b>	\$99,984,100	\$98,231,800	\$77,465,400	\$83,798,000
<b>Balance Forward</b>	\$75,759,800	\$74,126,800	\$78,442,900	\$74,685,300
<b>AHCCCS Medical Services Stabilization Fund</b>				
<u>Funds Available</u>				
Balance Forward	61,267,700	80,231,500	77,493,100	81,367,800
Transfer In - Tobacco Tax Medically Needy Account	15,000,000	1,250,000	0	0
Interest Revenue	3,963,800	4,011,600	4,274,700	4,488,400
<b>Total Funds Available</b>	76,267,700	81,481,500	81,367,800	85,436,200
<u>Allocation</u> - Healthcare Group	\$0	\$8,000,000	\$0	\$0
<b>Balance Forward</b>	80,231,500	77,493,100	81,367,800	85,436,200
<b>AHCCCS Premium Sharing Demo Project Fund</b>				
<u>Funds Available</u>				
Balance Forward	20,734,000	42,216,100	52,054,200	31,419,500
Transfer In - Tobacco Tax Medically Needy Account	20,325,000	20,400,000	0	0
Interest Revenue	1,955,200	2,620,800	1,301,400	785,500
<b>Total Funds Available</b>	43,014,200	65,236,900	53,355,600	32,205,000
<u>Allocation</u>				
Administrative Expenses	\$367,000	\$417,000	\$400,300	\$400,300
Services	431,100	12,765,700	21,535,800	21,535,800
<b>Balance Forward</b>	\$42,216,100	\$52,054,200	\$31,419,500	\$10,268,900

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## DHS Medically Needy Account

### Funds Available

Balance Forward	\$0	\$0	\$0	\$0
Transfer In - AHCCCS Medically Needy Account	36,410,400	34,554,900	27,943,700	27,915,900
<b>Total Funds Available</b>	<b>36,410,400</b>	<b>34,554,900</b>	<b>27,943,700</b>	<b>27,915,900</b>

### Allocation

Primary Care Programs	5,983,200	6,240,000	6,240,000	6,240,000
Qualifying Community Health Centers	6,874,900	5,200,000	5,200,000	5,200,000
Telemedicine	368,300	260,000	0	0
Mental Health Programs for Non-Title 19	5,000,000	5,200,000	5,200,000	5,200,000
Detoxification Services	500,000	520,000	0	0
Renal Disease Management	250,000	260,000	260,000	260,000
Basic Children's Medical Services Program	4,086,300	2,600,000	0	0
Evaluations	242,600	854,200	854,200	854,200
Public Health Education	3,900	959,800	953,700	953,700
Rural Private Primary Care Provider Loan Repay Program	16,100	52,900	27,800	0
Primary Care Capital Construction Projects	136,200	2,500,000	0	0
Salome Health Services	65,000	0	0	0
AIDS/HIV Supplement	0	1,700,000	1,000,000	1,000,000
Nonrenal Disease Management	0	208,000	208,000	208,000
CHIP Direct Services from Qualifying Health Centers	0	5,000,000	5,000,000	5,000,000
CHIP Direct Hospital Services	0	3,000,000	3,000,000	3,000,000
<b>Total Allocations</b>	<b>23,526,500</b>	<b>34,554,900</b>	<b>27,943,700</b>	<b>27,915,900</b>

## Revertment from DHS to AHCCCS Medically Needy

\$12,883,900	\$0	\$0	\$0
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## DHS Health Crisis Fund

### Funds Available

Transfer In - AHCCCS Medically Needy Account	1,000,000	862,800	0	0
<u>Allocation - HIV/AIDS Treatment</u>	862,800	0	0	0

## Balance Forward

137,200	1,000,000	1,000,000	1,000,000
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## DHS Health Education Account

### Funds Available

Balance Forward	\$46,013,900	\$51,363,200	\$46,408,500	\$45,246,300
Transfer In - Tobacco Tax and Health Care Fund	26,779,600	26,228,300	25,621,600	25,028,900
Interest Revenue	\$2,745,900	\$3,223,900	\$2,961,000	\$2,888,000
<b>Total Funds Available</b>	<b>\$75,539,400</b>	<b>\$80,815,400</b>	<b>\$74,991,100</b>	<b>\$73,163,200</b>

### Allocation - Administration & Program Costs

24,176,200	34,406,900	29,744,800	29,544,800
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## Balance Forward

\$51,363,200	\$46,408,500	\$45,246,300	\$43,618,400
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## DHS Health Research Account

### Funds Available

Balance Forward	\$12,099,600	\$14,015,000	\$5,538,700	\$2,895,200
Transfer In - Tobacco Tax and Health Care Fund	\$5,821,600	\$5,701,800	\$5,569,900	\$5,441,100
Interest Revenue	\$627,700	\$843,300	\$277,700	\$208,400
<b>Total Funds Available</b>	<b>\$18,548,900</b>	<b>\$20,560,100</b>	<b>\$11,386,300</b>	<b>\$8,544,700</b>

### Allocation

Disease Control Research Commission	4,033,900	10,021,400	6,491,100	5,696,000
Transfer to U of A - Liver Research Institute	500,000	0	0	0
Anticancer Drug Discovery	0	5,000,000	2,000,000	2,000,000
<b>Total Allocation</b>	<b>4,533,900</b>	<b>15,021,400</b>	<b>8,491,100</b>	<b>7,696,000</b>

## Balance Forward

\$14,015,000	\$5,538,700	\$2,895,200	\$848,700
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1/ Revenue estimates assume a decrease of (1.8)% based on the actual decrease in FY 1998

2/ Revenue estimates for FY 2000 and FY 2001 include an additional decrease of 0.5% for a total decrease of (2.3%) to reflect decreased tobacco sales resulting from higher tobacco prices implemented following the settlement of the lawsuit with tobacco companies in November 1998.

# Joint Legislative Budget Committee - Fiscal Year 2000 and 2001 Budget - Analysis and Recommendations

## Summary of Disproportionate Share Payments

	<b><u>FY 1998 Actual</u></b>	<b><u>FY 1999 Appropriated</u></b>	<b><u>FY 1999 Estimated</u></b>	<b><u>FY 2000 Estimated</u></b>	<b><u>FY 2001 Estimated</u></b>
<b>Maricopa County</b>					
Revenues	\$89,200,900	\$69,318,100	\$90,334,000	\$67,817,900	67,817,900
Costs	<u>(75,245,200)</u>	<u>(56,177,800)</u>	<u>(76,989,800)</u>	<u>(54,677,600)</u>	<u>(54,677,600)</u>
Net Benefit	13,955,700	13,140,300	13,344,200	13,140,300	13,140,300
<b>Pima County</b>					
Revenues	18,109,300	15,123,400	19,584,000	16,076,400	16,076,400
Costs	<u>(11,628,600)</u>	<u>(9,021,400)</u>	<u>(13,387,300)</u>	<u>(9,974,400)</u>	<u>(9,974,400)</u>
Net Benefit	6,480,700	6,102,000	6,196,700	6,102,000	6,102,000
<b>Other Counties</b>					
Revenues	2,140,400	2,015,300	2,046,600	2,015,300	2,015,300
Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Benefit	2,140,400	2,015,300	2,046,600	2,015,300	2,015,300
<b>Private Hospitals</b>					
Revenues	16,089,900	15,150,000	15,385,000	15,150,000	15,150,000
Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Benefit	16,089,900	15,150,000	15,385,000	15,150,000	15,150,000
<b>Arizona State Hospital</b>					
Revenues	8,627,000	24,072,600	0	23,831,900	23,831,900
Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Benefit <sup>1/</sup>	8,627,000 <sup>2/</sup>	24,072,600	0	<sup>2/</sup> 23,831,900	23,831,900
<b>TOTAL DSH REVENUE</b>	<b><u>\$134,167,500</u></b>	<b><u>\$125,679,400</u></b>	<b><u>\$127,349,600</u></b>	<b><u>\$124,891,500</u></b>	<b><u>\$124,891,500</u></b>
<b>State General Fund</b>					
<b><u>Revenue</u></b>					
County Withholding	86,873,800	65,199,200	90,377,100	64,652,000	64,652,000
ASH DSH Transfer	<u>0</u>	<u>12,078,700</u>	<u>0</u>	<u>11,838,000</u>	<u>11,838,000</u>
Total Revenue	86,873,800	77,277,900	90,377,100	76,490,000	76,490,000
<b><u>Appropriation</u></b>					
State Match	(54,116,300)	(44,679,400)	(45,278,900)	(43,891,500)	(43,891,500)
<b>NET STATE BENEFIT</b>	<b><u>\$32,757,500</u></b>	<b><u>\$32,598,500</u></b>	<b><u>\$45,098,200</u></b>	<b><u>\$32,598,500</u></b>	<b><u>\$32,598,500</u></b>

<sup>1/</sup> For FY 2000 and FY 2001, of this amount, \$11,993,900 is used as a direct offset and the remainder is deposited to the General Fund.

<sup>2/</sup> For FY 1998 and FY 1999, ASH lost its Medicaid certification and is currently ineligible for Federal DSH funds. In FY 1998, the state provided \$8,627,000 in state-only DSH funds for ASH. In FY 1999, all funding allocated to ASH pursuant to the FY 1999 appropriation is reallocated to Maricopa and Pima counties. This amount is then deposited to the General Fund through county withholdings (FY 1999 Estimate). The monies deposited to the General Fund are used to offset a FY 1999 General Fund supplemental appropriation for ASH. See the Department of Health Services section for further information.

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